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Salinas

MEMORANDUM

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DATE: January 31, 1978

JUN 30 1978

TO: Honorable Mayor and City Council UNIVERSITY OF CALIFORNIA

FROM: City Manager

SUBJECT: STATUS REPORT AND RECOMMENDATION FOR ACTION REGARDING
JARVIS INITIATIVE

On January 6 we submitted a memorandum to the City Council regarding the very severe adverse impact on City services that could result from passage of the Jarvis Initiative at the June 6 election, and Council indicated a high degree of concern regarding the proposals effect. Since that time, we have evaluated the matter further -- although our findings are far from conclusive at this point -- and we believe that a status report on this important matter would be appropriate at this time. The purpose of this memo is therefore, (1) to report on several actions we have taken to date to protect the City from the possible effects of Jarvis, (2) to recommend another action or two which Council may wish to consider, and which require Council action, and (3) to serve as a basis for future action which may seem necessary as a result of Jarvis.

APPARENT DEFECTS IN THE JARVIS INITIATIVE

Granting that the objective of the Jarvis Initiative -- providing property tax relief to taxpayers -- is a worthy one, the Initiative is so poorly drafted as to create more problems than it solves. Some of these points were the subject of my initial January 6 memorandum, but for purposes of the present discussion, the following summary of apparent defects and questionable provisions is offered:

1. Uncertainty and a Short Fuse. Policy-making bodies of public agencies all over California will find it difficult, if not impossible, to do meaningful financial planning until the Jarvis situation is stabilized. This means that, unless the legislature takes early action to provide property tax relief that is an acceptable alternative to Jarvis, the spring budgeting season will be characterized by great uncertainty.

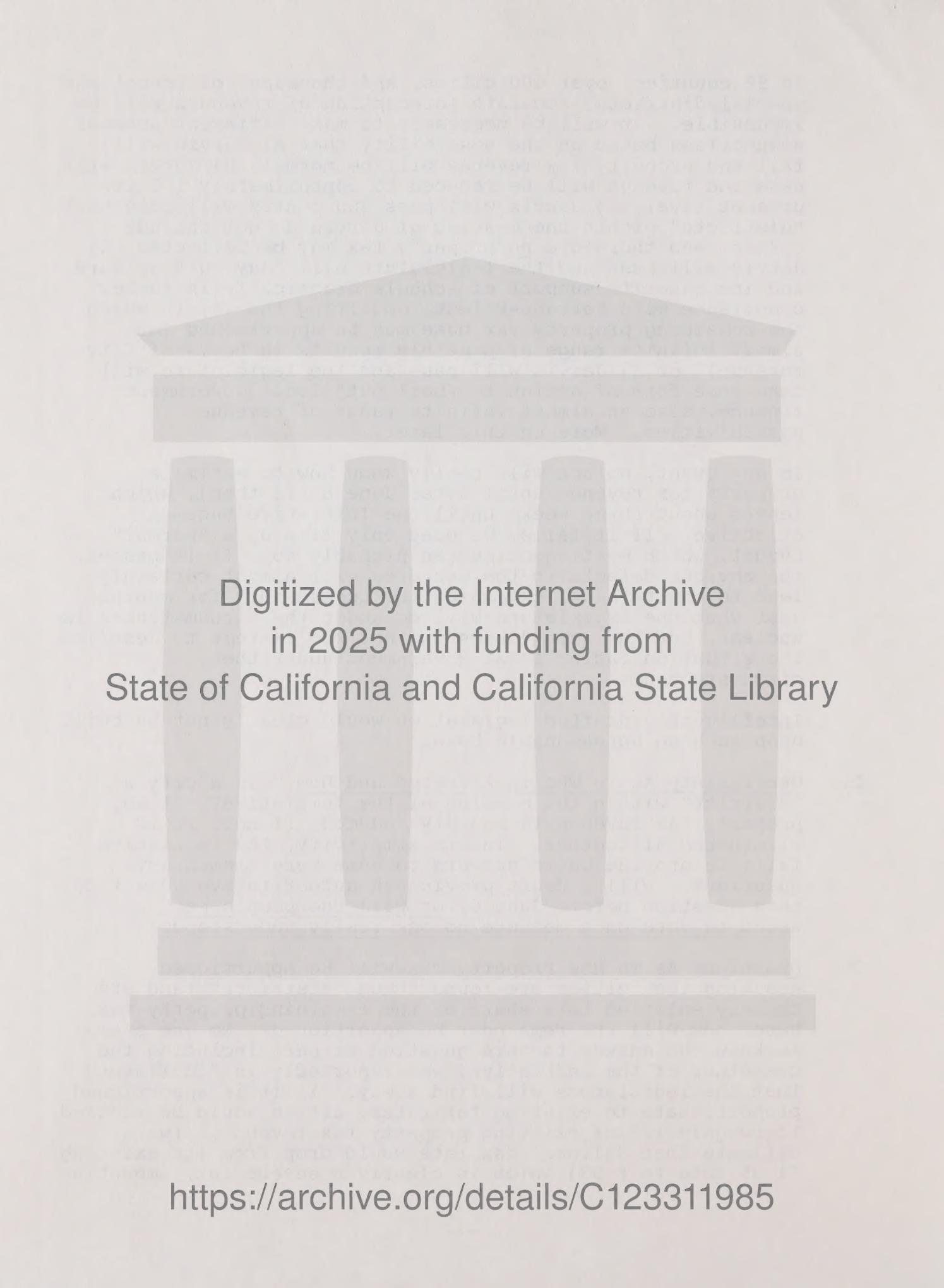
The Behr bill has been approved by the Senate, but it is still uncertain what will happen to it in subsequent steps of the legislative process. We will, of course, monitor its progress closely. It remains to be seen whether, in final form, it will be an effective alternative to Jarvis.

In 58 counties, over 400 cities, and thousands of school and special districts, accurate forecasting of revenues will be impossible. It will be necessary to make different sets of assumptions based on the possibility that A) Jarvis will fail and property tax revenue will be normal, B) Jarvis will pass and revenue will be reduced to approximately 1/3 its present level, C) Jarvis will pass and courts will rule that "districts" within the meaning of Jarvis do not include cities, and therefore no property tax may be collected, D) Jarvis will pass and the legislature will "buy out" welfare and increase its support of schools drastically in fuller compliance with Serrano-Priest, modifying the way in which the remaining property tax base may be apportioned (an almost infinite range of possible results in terms of City revenue), or E) Jarvis will pass and the legislature will take some form of action to "bail out" local government finance, also an almost infinite range of revenue possibilities. More on this later.

In any event, no one will really know how to estimate property tax revenue until after June 6 (if then), which leaves about three weeks until the Initiative becomes effective. If it fails, we need only firm up a "normal" budget, which most agencies can probably do. If it passes, the obvious defects in the measures will almost certainly lead to court tests, extending the uncertainty for months. Just what the legislature will do under the circumstances is unclear, but the word "chaos" is not too extreme to describe the situation facing local government under these circumstances.

Intelligently drafted legislation would clearly not be built upon such an unreasonable base.

2. Uncertainty As To Who Is Affected and How. Is a city a "district" within the meaning of the Initiative? If so, property tax revenue is sharply reduced; if not, it is eliminated altogether. In its simplicity, the initiative fails to provide basic answers to some very elementary questions. Will a court provide an authoritative answer to this question before June 6, or will the people be asked to vote on a measure no one really understands?
3. Questions As To How Property Tax Will Be Apportioned. Assuming that cities are found to be "districts" and are thereby entitled to a share of the remaining property tax base, how will the remainder be apportioned? No one seems to know the answer to this question either, including the co-author of the Initiative, who reportedly is "confident" that the legislators will find a way. If it is apportioned proportionate to existing tax rates, cities would be reduced to roughly 1/3 of existing property tax revenue, (we estimate that Salinas' tax rate would drop from its existing \$1.35 rate to \$.53) which is clearly a severe cut, amounting



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to a loss of about \$2.6 million dollars a year. The reduction would be felt even more heavily in those agencies which are dependent wholly on property taxes for their revenues, such as fire protection districts, flood control districts, etc. Whether such agencies could even continue to operate at all under such constraints is open to question.

4. Impact On Redevelopment Projects. There is also a great deal of uncertainty as to what the initiative means to redevelopment projects. Is a redevelopment agency a "district"? If so, perhaps the impact on tax increment revenues is "only" a 2/3 reduction. This in itself would virtually cripple our Central City Revitalization project, and it is possible that the final interpretation by a court may be that redevelopment agencies and tax increment financing are not acknowledged as existing at all under Jarvis. If so, the impact would be even more severe.

What would the impact be on an existing project, which has incurred an obligation, but has yet to pay off that obligation, such as our Sunset Avenue redevelopment project? Since taxes are collected each year, it is a reasonable interpretation that these projects would be adversely affected, at the minimum, extending their payment schedule beyond the realm of financial feasibility, and very possibly causing bankruptcy in some cases. We need a court interpretation on this point before June 6 as well, so that the voting public knows precisely what its vote will mean.

5. Secondary Impacts On Related Revenue Sources. If the truck doesn't get us when it runs over us the first time, it will get us when it backs up. Certain revenue sources which cities depend upon, such as general revenue sharing are built on formulas which relate to the property tax base. In the case of GRS, which provides over \$1 million dollars per year to the City of Salinas, the formula include the element of "tax effort": How much an agency is willing to tax itself in proportion to others. If "tax effort" (i.e. the property tax rate) is reduced, GRS will eventually be reduced, even if only in the 1980 re-allocation. Council has reduced the property tax rate from \$1.55 to \$1.35 over the past several years despite this fact, in an effort to provide some measure of relief within financial reason, but the magnitude of reduction contemplated by Jarvis would be reflected in a major, but unpredictable reduction in GRS. Since it would occur all over California, the aggregate loss to Californians would be potentially staggering, and it is unlikely that the other 49 states would be sufficiently concerned about California's self-inflicted wound to modify the formula.

6. Secondary Impacts On Employees Not Directly Affected. On a state-wide basis, revenue cuts of the magnitude required by Jarvis inevitably mean personnel layoffs, as personnel costs in service-oriented organizations such as cities account for

60% to 80% of operating budgets. Layoff of temporary employees made available to cities under the CETA program will not suffice, as these positions are funded primarily, if not exclusively, from Federal grants. Personnel reductions must therefore necessarily be made from the ranks of permanent employees, ironically leaving temporary employees on the payroll.

Federal regulations, however, prohibit "supplanting" permanent employees with CETA employees, so it appears at this time (again, absent an authoritative interpretation that certainly cannot be found in Jarvis) that for every permanent employee laid off, a CETA employee of similar assignment must also be laid off -- not because funds are not available from this source, because they are -- but because Federal regulations and Jarvis are not in harmony.

7. Impact On Unemployment Insurance. Here comes that truck again. As we lay off employees, we must pay unemployment insurance under the new bill Congress recently passed to bail out the unemployment insurance fund by mandatory City participation. As revenues are cut and employee layoffs rise, so does the cost of employee unemployment insurance payments, and where these payments will come from with the noose so neatly tightened by Jarvis, is certainly unclear, but obviously a city thus bankrupted will neither pay employees nor provide services to the public.
8. Jarvis vs. The EPA And Other Federal Agencies. As Council is aware, the regional water pollution control program is based on a Federal mandate that sewer service charges will pay the necessary costs. No such charges are made in Salinas at this time, with the cost of sewers and sewage treatment being paid from the General Fund, but we will have no choice under the law but to comply with EPA's mandate for a sewer service charge as soon as we enter the program. Jarvis however, declares that the vote of 2/3 of the qualified electors (not 2/3 of those voting, but the total) is required to levy "special taxes". The likelihood of 2/3 of qualified electors voting in favor of such a service charge (if it is a "special tax", a question yet to be answered) should be self-evident, leading to the inability of the agency to meet EPA mandated standards. Whether the mandate of the EPA or that of the public's vote on Jarvis is superior remains to be seen, but at the minimum, this conflict is further indication of the need for carefully thought out legislation.
9. Forgotten Nuances Of The Tax System. What happens to Woodside Park landscaping? The special landscaping in the Woodside Park subdivision is maintained through a special tax rate, which is provided for in California law and was requested by the developer. Will the tax rate be lost, thereby thrusting additional cost burdens on other

taxpayers, or merely shrunk to the point at which landscape maintenance becomes a bad joke? Jarvis gives no hint on how this and other special tax rates would be treated.

The foregoing are by no means the only defects in Jarvis, but they serve to illustrate the problems thrust upon local government by this initiative, even prior to its passage.

THE PROSPECTS OF SUBSTITUTE LEGISLATION FROM SACRAMENTO

Traditionally, we have come to expect that when the Legislature fails to provide some type of legislation demanded by the public, the public will respond by at least attempting to place such legislation on the ballot. If the voters are successful in placing a measure on the ballot, the Legislature then enacts legislation that tends to offset the initiative, either making it unnecessary or otherwise neutralizing it.

In this case there was every reason to expect that tax relief -- if not tax reform -- legislation would emerge from the legislature last year. Virtually every legislator acknowledged the need for property tax relief, and made emphatic noises in that vein during campaigning. But whether through the fault of the leadership or splinter groups or who, the promise of tax reform degenerated into tax relief and tax relief degenerated into inaction.

Understandably, the public reacted with support for Jarvis, as the only game in town, and in returning to Sacramento in January, the legislature again made noises about tax reform/relief. Its objective was to pass a bill that might serve as an alternative to Jarvis, and several abortive attempts were made to pass versions which were clearly unacceptable to the majority, for one reason or another. Rather than concentrate on a major tax reform/relief thrust, the legislature seems to be spending its energies in diverse areas, many of very little importance in the total scheme of things. At the eleventh hour last week, the Senate approved the Behr bill, which is apparently the only hope for positive tax relief legislation this year. Even if satisfactory compromises are made to secure final legislative approval, the question will still remain as to whether it will offer an acceptable alternative to the voters in June.

Underlying the puzzling failure of the legislature to act more positively in this matter perhaps may be the fact that a property tax is, after all, a local revenue. The programs on the block are not State programs, then, but local ones, and the State can always "save the day" with substitute revenue which local government will not be in a position to refuse.

A cynical view of this situation might well envision the scenario as follows:

1. Jarvis passes.
2. Legislature rushes to the rescue with supplementary revenue to bail out local government.
3. Replacement revenue (predictably) includes certain "strings" and restrictions.
4. State utilizes restrictions to bring local government into conformity with State programs, at risk of losing replacement revenue.
5. Local government independence -- such as it is -- becomes further eroded.
6. The public -- which started it all -- wonders why local government is no longer in a position to be responsive to its needs.

In brief, the prospects for sound tax relief legislation (as opposed to a patchwork of compromises) coming out of Sacramento before June 6 are still in question, as is its voter acceptability as a substitute for Jarvis.

ACTIONS BEING TAKEN IN ANTICIPATION OF JARVIS

We must therefore assume that the Jarvis Initiative will be supported by the public, and take steps to minimize its adverse impact on public services. We must, however, avoid over-reaction, which could also have its adverse impacts.

Toward this end, we have taken several steps which are feasible administratively, and will be recommending several courses of action to Council for your consideration.

Among administrative actions already taken are the following:

1. On January 27, we issued an order instituting a hiring freeze, effective February 1 except for essential replacements, which I will consider on a case by case basis. No permanent employees will be hired until after the Jarvis situation is stabilized, except those funded by special revenue sources. There is, in my opinion, no point in hiring a "permanent" employee in March who will have to be laid off in June. Temporary CETA employees, being Federally funded, are exempt, but we will also be judicious about such replacements. Because of employee concern on this point, and the rumors that are inevitably generated by such concerns, we have and will continue to provide employees with pertinent information as it becomes available.

2. In a companion action, we have stopped progress on all projects for which contracts have not actually been awarded. This action will conserve our resources against prospects of a severely restricted revenue picture in the 1978-79 fiscal year, permitting greater latitude of options and perhaps alleviating lay-offs.

These projects total approximately \$640,000, and include the following:

Concrete repair
Fire Station No. 1 (Allowance to be made for architect's fees only)
Soto Square Park
Fire Station Classroom and improvements
Storage building
Central Park tennis improvements
Municipal Pool reconstruction
Sherwood Park parking
Lighted softball field
Laurel Park tennis courts
Fairways parking resurfacing
Santa Rita Park

If Council does not agree that these projects should be halted (at least temporarily, until the situation is clarified) we should have your guidance.

3. We are also asking Department Directors to scrutinize operating costs carefully, to trim wherever possible. While I am not optimistic that this step will yield savings of the magnitude of the first two (due to the fact that many costs are fixed) we will nevertheless expect careful review in this area. Tight administration of our allotment system may also result in worthwhile savings.
4. Special purpose funds are being re-examined for broader application. Gas tax funds, for example, are now legally eligible for broader use than previously, and while we have traditionally reserved the major portion of gas tax funds for projects and utilized general funds for maintenance, we can no longer afford such a policy. We are shifting all available gas tax funds into maintenance, in order to free up general funds for other programs. Inevitably this will result in fewer dollars available for traffic signals, street construction, and even street maintenance projects.
5. I have requested that the League of California Cities take the necessary steps to secure an opinion from the Attorney General or Legislative Counsel as to the meaning of the Jarvis Initiative prior to the election and court tests. The public is, in my opinion, entitled to know what the bill really says and means. Whether this can be secured is uncertain at this time.

6. While it may be inappropriate to prepare and submit two or three alternate budgets as we originally had thought might be practical (since there are so many shades of impact resulting from each of several options) it will be necessary for us to develop a wide range of options in order to provide Council with a balanced program immediately following June 6, whatever the election's outcome. We are undertaking this work immediately.
7. Since Jarvis places very significant clouds of doubt on what the City may be able to do in terms of salary and fringe benefit adjustments next July, we are suggesting to employee groups that the annual meet and confer sessions be delayed until at least mid-May. There is no point in wasting time starting discussion in March if meaningful discussion cannot proceed until we know what our resources will be next fiscal year, which would be subsequent to June 6.

RECOMMENDED COUNCIL ACTION

In addition to the foregoing, we have one course of action to recommend to Council and one we do not recommend, but feel compelled to mention in the interest of fulfilling our responsibilities to Council.

In the first category, we recommend that Council rescind its action relative to the 6-Year Capital Improvement Program, and authorize staff to abandon any attempt to develop a separate capital improvement program this year. You will recall that we recommended transition to a 6-year program at your meeting of November 14, and work is well underway toward implementing that policy. If we cannot forecast revenues in fiscal year 1978-79 during the February-March time frame, however, I see no way of making reliable estimates five and six years into the future. Because of the uncertainties of Jarvis, I therefore recommend that we defer action on the capital improvement program this year, and treat all capital projects for the next fiscal year (such as they may be) as part of the operating budget, considered along with everything else during the period following June 6. We would, of course, still intend to provide Council with the greater detail and information relative to long-range operating cost implications of capital projects that was inherent in our 6-Year Capital Improvement Program proposal.

We also recommend that Council authorize a modification in our budget calendar for this year, permitting each of the individual steps to occur approximately 30 days later than usual. With a continuing appropriation for regular operations during the month

of July, we can provide Council with a realistic proposed budget (whatever the election outcome) on the following schedule:

Submission of a Proposed Budget to Council	June 26
General Revenue Sharing Hearing	July 10
Hearings/Study Sessions	July 1-24
Target Date for Budget Adoption	July 24

In the second category, Council could take some preventive action by adopting (prior to July 1) some additional revenue source or expanding an existing one. By enacting such a revenue measure by May, for example, to be effective in late June, Council could beat the Jarvis deadline for additional revenue. If Jarvis fails to pass on June 6, Council could abolish the additional revenue source prior to its effective date. While this approach is appealing in terms of generating additional revenue to maintain essential City services, it runs against my grain philosophically, and I do not recommend it. Under the circumstances it is a possible course of action, however, and I feel that I must bring it to your attention as one option, at least.

CONCLUSIONS

It is truly regrettable that the public is confronted with this situation, in which the legislature has failed to enact the tax reform/relief that virtually everyone agrees is long overdue, and now faces a vote on a Draconian measure simply because it is the only game in town. How can the public--understandably sick of high taxes--be expected to respond? If they vote "yes" they throw out the baby with the bath, and if they vote "no" the message does not get to the legislature, and tax reform may not take place.

Unfortunately, the cities are the ones whose services will be adversely affected, but the cities are not the ones who hold the power to correct the inequities. The public should understand that a city--which is responsible for perhaps 10% to 12% of the total property tax load--cannot have a meaningful impact on the individual property taxpayer, even if it abolished its property tax. Accordingly, the Salinas City Council has done its dead-level best to influence meaningful tax reform legislation in Sacramento, and we need make no apology for our position at least.

But, as Council knows, the public demands more and more in the way of services, not less and less. Better street maintenance, greater City participation in assessment districts, more parks, more tennis courts, more off street parking, faster police response (meaning more officers) and other demands of this type are presented to the City Council from time to time. The demand

for reduced taxes and greater economy is also there, to be sure, but the abstraction of reduced taxes is overwhelmed by the specific service demands, and one cannot have it both ways.

Instead of more service, citizens may have to be satisfied with less service under Jarvis, and unfortunately the reaction will be cumulative anger directed at local government because it cannot meet the expectations of the public.

Perhaps the most ironic twist of all in this situation is that property taxes are getting a bum rap in the first place. Jarvis says that only property-related services (police, fire, planning, etc.) should be financed from property taxes, and many of us have no philosophical quarrel with that notion. But if a city is already spending more on police protection alone than it collects in property taxes, as is the case in Salinas, the validity of the pressure for tax reduction is weakened.

The public is clearly fed up with taxes, all right, but income taxes represent four to five times the level of most taxpayers property tax levels. But because income taxes are extracted "painless" through payroll deductions, and property taxes are paid in large sums by overt action, property taxes wear the black hat and income taxes are meekly accepted.

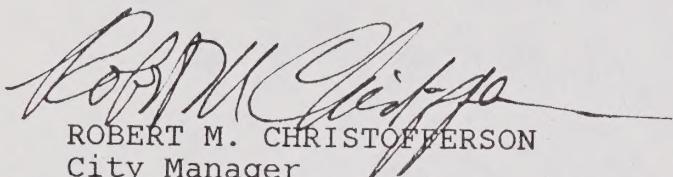
Blows at the property tax also miss the target by virtue of the fact that the State surplus now stands at four billion dollars, representing taxes paid by Californians beyond State needs. When one considers that most property tax relief measures recently under consideration in Sacramento total about \$970 million in the aggregate (or less than one-fourth of the total surplus) the staggering magnitude of the State surplus becomes apparent. Where is the public outcry against this overtaxation? Misdirected, it seems, at the property tax.

If the authors of the Jarvis Initiative were used car salesmen, they simply would not make a sale to the public, because the machinery in question will not work efficiently (if at all) after the transaction is completed. They are unable to provide a warranty that in the long run the public will not end up with either ineffective service or higher overall costs or both. They do not provide explanations--even in fine print--of the glowing generalizations that sell the product.

But in the peculiar area of state politics, even the promise that patently cannot be fulfilled apparently is acceptable to some people. We all know from bitter experience that sometimes automobiles and other mechanical devices fail to perform up to promise, but somehow we can't seem to believe that tinkering with some of our basic government systems may also result in their failure to perform properly.

The foregoing is intended, in addition to a status report and a recommendation for possible Council action, as a basis for

possible consideration of the potential impacts of Jarvis. Those who see such warnings as self-serving on the part of City officials miss the whole point, and do themselves and their city a disservice. Reductions in service will adversely impact all citizens, and each citizen owes it to himself to avoid knee-jerk reactions to attractive "solutions" and take time to look behind the facade for the real long-term impacts of measures such as Jarvis.



ROBERT M. CHRISTOFFERSON
City Manager

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